

HOW MUCH IS ENOUGH?

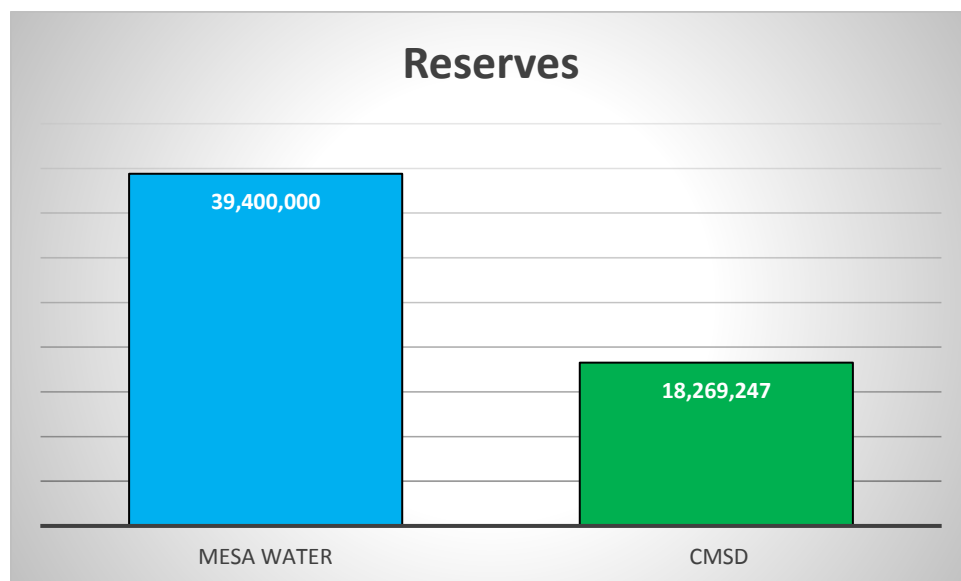
RESERVE FUNDS

According to the “Special District Reserve Guidelines” of the California Special Districts Association (CSDA), reserves are the foundation of the sustainable delivery of core services. Through prudent reserves, special districts offer taxpayers and ratepayers significant benefits including:

1. Savings to balance budgets
2. Emergency preparedness
3. Stable rates
4. Well-maintained infrastructure
5. Investment in the future

The fundamental question in maintaining a reserve is, how much is enough? In other words, when are reserves too low and when are they too high? The Guidelines believe there should be a clear and well-articulated rationale for accumulation and management of reserve funds. Special districts should develop and adopt a reserve policy as a commitment to financial prudence and careful stewardship of community assets.

On December 12, 2013, Mesa Water District Board of Directors held a public hearing for a five year rate increase (2014-2018). During the public hearing the Board learned that approximately 7% of the revenues generated from the rate increases will go to reserves. Why? Mesa Water now has double the amount of reserves than CMSD and does not describe a well-articulated rationale for the accumulation of their reserves. In contrast, CMSD provides a breakdown of its reserves at every monthly Board meeting in the Investment Report submitted by CMSD Treasurer. The rationale for CMSD reserves are described further below.



Sources: Mesa Water Arcadis study, dated July 2016
CMSD Investment Report, dated July 31, 2016

SOLID WASTE		
Type	Description	Amount
Operating Reserve	<p>Set at 30% of the operating budget. The operating reserve may only be accessed under the following circumstances, and only with Board approval.</p> <ol style="list-style-type: none"> 1. Federal/State budget cuts resulting in loss of grant funding; 2. Local revenue shortfalls due to a downturn in the local economy; 3. Increase in demand for specific services without another source of recovery; 4. Legislative or judicial mandates to provide new or expanded services or programs without new or fully off-setting revenues; 5. One-time Board approved expenses; 6. Unexpected increases in inflation (Consumer Price Index); or 7. Natural disasters (earthquakes, fires or other general infrastructure failures). 	\$1,720,000
Designated for Revenue Dry Period	Money needed to pay for solid waste bills when CMSD has a negative cash flow until the annual charges have been collected and remitted from the County of Orange. Funds cash flow from May through November.	\$2,450,000
Undesignated	Rate stabilization. Paying for organics recycling costs.	\$1,103,508
Total reserves for Solid Waste		\$5,273,508

WASTEWATER		
Type	Description	Amount
Capital Outlay	Represents money approved but not spent for repairing and replacing wastewater infrastructure, as required by state regulations.	\$4,960,800
Asset Management Fund	Accumulation of funds to ensure the District has enough money for repairing and replacing wastewater infrastructure such as pipes, pumps, valves, electrical control panels, etc. In the next five years, CMSD is projecting to spend nearly \$10 million on wastewater infrastructure.	\$5,212,146
Designated for Revenue Dry Period	Money needed to pay for wastewater bills when CMSD has a negative cash flow until the annual charges have been collected and remitted from the County of Orange. Funds cash flow from May through November.	\$2,337,500

WASTEWATER		
Type	Description	Amount
Asset Replacement Fund	Accumulation of funds for the purchase of new or replacement vehicles, equipment and computers.	\$1,057,039
Emergency Preparedness	Infrastructure improvements caused by catastrophic disaster.	\$1,000,000
Operating Reserve	Set at 25% of the operating budget. May only be accessed under the same circumstances as the Solid Waste Operating Reserve.	\$960,000
Facilities Revolving Fund	Funds are derived from the collection of fixture fees and are restricted. They can only be used for new sewer facilities and cannot be used for maintenance. These funds will be used to reimburse a portion of the purchase of the new headquarters building.	\$801,854
Undesignated	Funds available for wastewater use. Current deficit is due to the cash outlay for the purchase of the new headquarters building, a portion of which will be reimbursed by the Facilities Revolving Fund.	\$(3,333,600)
Total reserves for Wastewater		\$12,995,739
TOTAL RESERVES		\$18,269,247

The reserves described above keeps raw sewage out of waterways and protects the community's health and the environment. CMSD's commitment to financial prudence and careful management of its reserves will prevent costly repairs and replacement in the future and avoid tremendous costs to upgrade the sewer system like the agencies below:

- City of Garden Grove spends \$54 million over ten years to upgrade its sewer system.
<http://www.ocregister.com/articles/city-192853-sewer-system.html>
- City of San Diego investing more than \$1 billion on its sewer system over a six year period
<http://www.wwdmag.com/san-diego-settles-1-billion-sewage-improvements-maintenance>
- City of Richmond and West County Wastewater District will spend \$25 million on capital improvements to sewer collection systems
https://baykeeper.org/press_release/city-richmond-pledges-clean-its-sewage-system